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	E-00	FAAE-00	FBIE-00	VCI-00	DIAS-00	FRB-00	H-00
	TEDE-00	INR-00	ITC-01	LAB-01	L-00	ARMY-00	MOFM-00
	MOF-00	VCIE-00	NEA-00	NSAE-00	ISN-00	OES-00	OMB-00
	NIMA-00	MCC-00	MA-00	ISNE-00	FMPC-00	SP-00	SSO-00
	SS-00	STR-00	NCTC-00	BHG-00	IIP-00	SCRS-00	DSCC-00
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AMEMBASSY TEGUCIGALPA
AMEMBASSY TEL AVIV
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C O N F I D E N T I A L LA PAZ 001146

SIPDIS

USTR: BENNETT HARMAN; DOC: JULIE ANGLIN; CARACAS: MHAMILTON

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TAGS: ECON ETRD PREL KTEX BL CU VZ IR EAGR

SUBJECT: HOLY FRIJOLE: BOLIVIA'S ALBA TRADE PLAN

REF: A. LA PAZ 934
B. LA PAZ 867
C. LA PAZ 806
D. CARACAS 748

Classified By: A/ECOPOL Chief Holly Monster for reasons 1.4(b, d.)

11. (C) SUMMARY. This is part two of a three-part series on the trade and economic situation in Bolivia. While Bolivian President Evo Morales continues to alienate his neighbors (ref C) his government publicly continues to rely on Bolivia's membership in the Bolivarian Alternative for the Americas (ALBA) and its People's Trade Agreement. ALBA was a creation of Venezuelan President Hugo Chavez to counter U.S. Free Trade Agreements (FTAs) in the region. Despite Morales' claims of socialist success, analysis of Bolivia's trade balance and trading partners reveals that ALBA's economic influence remains relatively insignificant, particularly in light of Chavez' financial dire straits (ref D). Cuba remains a crucial symbolic member of the group, but Bolivian exports to the country (black beans and fuel oil) are heavily subsidized, despite the fact that Bolivia's purchasing power parity (PPP) of Gross Domestic Product (GDP) per capita was less than half of Cuba's in 2008. Other ALBA countries have little to no influence, while neighboring Peru, Brazil and Argentina stay on top. Israel's quinoa demand tops Iran's

boron requirements, while China and South Korea quietly move up the ranks importing Bolivian minerals. END SUMMARY.

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CUBA: A LITTLE LESS CONVERSATION, A LITTLE MORE ACTION
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12. (C) After several years of exporting minuscule amounts of cooking oil and chocolate bon-bons, the first quarter of 2009 showed a change in exports to Cuba. The total was approximately \$30,000. There were no chocolate bon-bons, but rather copious amounts of black beans being exported to Cuba. Bolivia does not produce many black beans, but average price per kilo to other countries, such as Spain and the U.S., show a price double the price given to Cuba. Econoff followed up with the export chamber, whose president told her that the GOB is buying the beans from Bolivian producers and then subsidizing the cost to Cuba. In 2008, Cuba's PPP of GDP per capita was \$9500 according to the CIA factbook, whereas Bolivia's came in at \$4500. Bolivia also did not export their usual amounts of soy beans, which is good news for U.S. producers who compete for the Cuban market.

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VENEZUELA: PROMISED LAND
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13. (U) Soy products, however, remains flowing in bulk to Venezuela. Soy is the number one export to Venezuela, accounting for 51 percent of exports to the country at a value of \$23 million dollars the first quarter of 2009 alone. Sunflower products and textiles came in second, each with a total of around \$7 million dollars. Total exports to Venezuela were \$45 million dollars.

14. (C) Morales totes a "success story" in Venezuela, for creating a market for textiles after the 2008 suspension of the Andean Trade Promotion and Drug Eradication Act (ATPDEA) caused Bolivian exporters to face a 19 percent tariff on textile goods send to the United States. Textile companies, however, complain the plan has been a complete failure. Ametex, Bolivia's largest textile producer, laments that the GOB did a poor job negotiating with Venezuela's Suministros Venezolanos Industriales (SUVINCO) to purchase excess product. The company says that "regardless of the many negotiations...no sales have ever taken place."

15. (C) On August 3, the GOB publicly announced that it had struck a new deal with the Venezuelans. The process will now entail the GOB's monetization program, Insumos Bolivia, working with SUVINCO to find markets for Bolivian goods. The Venezuelan purchasing client will pay money to SUVINCO, who will export Venezuelan products to Bolivia. Insumos Bolivia will monetize the Venezuelan products, then pays the Bolivian exporter, who is responsible for shipping their own goods. Ametex contacts say the plan is as convoluted as it sounds and they will not rely on it. Since Morales took office, the company has faced a 60% drop in purchase orders. Its employees were cut from 3,000 to 1,900, including 85 administrative positions. It still has 500,000 garments in overstock, but does not anticipate it being sent to Venezuela.

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THE REST OF ALBA
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16. (C) While ALBA membership continues to grow, its economic impact remains stagnant. Exports to Ecuador for the first quarter of 2009 were \$1.3 million dollars, mainly in soy goods, meat and corn. Honduras was similar to Cuba, with only \$22,000 being exported, in voltage regulators and light fixtures. Other ALBA countries, such as Nicaragua and Dominica, saw no trade with Bolivia at all.

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CHILE, PERU, BRAZIL & ARGENTINA
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¶7. (C) Even taking out natural gas (septel), Brazil and Argentina still remain key markets for Bolivian goods. Combined with Peru and Chile, the first quarter of 2009 saw exports of \$72.6 million dollars to the four countries. Despite Bolivia's constant diplomatic struggles with Peru, it exported \$31.3 million dollars in goods to Peru in the first quarter alone. Bolivia's neighbors have legitimate, not created, markets in diverse industries ranging from steel to quinoa to bananas.

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IRAN, ISRAEL, CHINA & SOUTH KOREA
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¶8. (C) Despite high-level talks promoting a strong commercial relationship between the two countries, Bolivia still has only exported \$26,000 dollars worth of goods to Iran for the first quarter of this year. (ref B) Israel, however, imported over \$300,000 dollars worth of Bolivian goods during the same period, mainly altiplano-produced quinoa. (NOTE: Morales expelled the Israeli diplomatic mission after the January 2009 Gaza Strip conflicts and continues to strengthen its ties to Iran. END NOTE.) China's economic influence has also been in the spotlight, and Bolivia exported \$9.8 million dollars in goods to China in the first quarter. Nearly all exports to China were for construction purposes, including steel and wood planks. South Korea, however, has slowly been becoming a major trading partner for Bolivia. Its demand for Bolivian zinc was worth \$84 million dollars for the first quarter alone. Textile exports continue to shrink to South Korea, with only \$185,000 of goods being sent for the first quarter.

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COMMENT
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¶9. (C) Morales continues to make political decisions instead of economic ones when it comes to Bolivia's trading partners. ALBA's forced economic relationship creates weak links to non-growth markets, particularly in textiles to Venezuela. Despite the best efforts of the Morales administration, there has yet to be a solid replacement for the U.S. market in textiles (ref A). Low-cost and low-quality textile production should likely be abandoned and investment put into other crucial Bolivian industries, particularly minerals, soy and quinoa. Mending relationships with Peru and providing further inputs for its growing economy could help reduce a dependency on uncertain exports of natural gas to Brazil and Argentina, who are actively trying to wean themselves into a more efficient energy source for the future. Globally, even if Bolivia can compete with labor costs, its moratorium on foreign direct investment, treatment of private property, and testy stances on free trade will likely cause many buyer countries to realize that bargaining with Morales might not be worth the trouble. END COMMENT.

CREAGAN